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SUBJECT: TIGHTER CREDIT, CURRENCY SHORTFALL MAY SLOW ECONOMY IN  
RUSSIAN FAR EAST

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#### Summary

1. Although Russian politicians generally refuse to acknowledge the possibility of financial crisis in here, signs of financial distress have emerged in the Russian Far East. Banks have significantly tightened credit terms, many areas are experiencing a shortage of hard currencies, and companies are beginning to consider layoffs. Despite the indications, many Far East residents consider the financial problems in the U.S. to be far off, and assume Russia is insulated from global financial problems.

#### Higher Interest Rates and Fees for Loans

2. Banks throughout the Russian Far East have been increasing interest rates and introducing or raising service charges for all types of loans. Primotsbank charges 15 percent to new clients for one-year loans up to 150 thousand rubles, and has added a 1.4 percent service charge. Only customers who have already repaid loans to the bank are granted a two-year repayment option. Vostokbiznesbank, partially owned by the Ministry of Railroads, has halted all personal loans except for railroad employees. Vostochniy Ekspress Bank in Vladivostok reduced the repayment period for personal loans from five years to three and increased interest from 28.85 to 30.8 percent. Khabarovsk's Dalkombank increased rates by four percentage points and Kreditniy Ostrov Credit hiked rates by five points. Primorye banks have raised interest on small business loans from an average of 15 percent to 26 percent.

3. Banks have also made mortgage terms stricter. In addition to raising interest rates -- now ranging around 16 percent -- they have increased the minimum down payment from 15 to 30 percent, and decreased the repayment period from 15 years to 10 or 12. Analysts Congen consulted with expect further increases in interest rates and possibly a 50 percent down payment requirement. Aleksandr Ivashkin, Chairman of the Primorye League of Credit Brokers, confirmed that Primorye residents had a difficult time procuring credit in September, noting that banks' loan approval rate has declined from 50 percent to 10 percent in the past few months. The Primorye Kray Administration has refrained from commenting on the financial crisis and its consequences for the region.

4. Other regions in the Russian Far East have also felt the crisis. Acting Head of the Amurskaya Oblast Financial Department Tatyana Farafontova stated in the media that oblast revenues declined by 516 million rubles (USD 20.6 million) so far this quarter, leaving the oblast budget with a 2.5 billion ruble (USD 100 million) shortfall. Farafontova admitted that Oblast financial analysts did not expect the world financial

crisis to affect the region's budget so deeply.

15. A Congen contact in Khabarovsk expressed worry to poloff that the crisis may affect his hotel business. According to the terms of a ten million dollar loan he received, his crediting bank has the right to demand full repayment for the outstanding balance at any time. This would leave him with significant cash flow problems, and has forced him to postpone expansion plans.

#### Hard Currency Shortage

16. Residents in Sakhalin and Primorye are facing a shortage of U.S. dollars and euros at banks and exchange points as rumors spread quickly about further weakening of the ruble, possible devaluation of the currency, and sudden inflation. Vladimir Apanasenko, Head of the Russian Central Bank's Sakhalin branch, offered to step in and supply reserve hard currency to consumers who submit written requests. Vladivostok banks are also experiencing a shortage of U.S. dollars as demand for hard currency has increased in 5-6 times in the past few weeks. According one industry source, 60 percent of Vladivostok banks cannot meet consumer demand for dollars and euros.

#### Media Coverage Skewed

17. Russian mass media tends to present the world financial crisis as a situation dire to the U.S., but largely irrelevant to Russia. Many Congen interlocutors seem to believe that the U.S. is on the verge of economic collapse while Russia is an island of stability. Several contacts have asked Pol/Econ FSNs how Americans are handling the massive unemployment, lack of disposable income, and high inflation. Most are surprised when told by FSNs and poloff that the situation is not nearly as bad as that portrayed in the Russian media.

Comment

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18. So far, the global financial crisis in the Russian Far East has been limited to a significant tightening of credit terms and a shortage hard currency. The implications of these problems are not far off. Fishing companies preparing for Pollack season will likely suffer significantly, as fishermen usually take loans to purchase fuel for their Okhotsk Sea runs. Primorye construction companies will also likely be impacted and financing for the 2012 APEC summit may become more difficult to find. So far, employment levels have remained steady, though several Congen business contacts have stated that they may need to reduce staff in the near future. Despite the official media's portrayal of Russia as a bastion of stability, the shortage of hard currency indicates the population's lack of faith the government's ability to keep inflation under control and to support the ruble. Despite all the bad news, one positive side effect for Far East residents is that real estate may become more affordable.

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